New foundations for education finance : building on progress

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NEW FOUNDATIONS FOR EDUCATION FINANCE:

BUILDING ON PROGRESS

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NEW FOUNDATIONS FOR EDUCATION FINANCE:

BUILDING ON PROGRESS

INTRODUCTION

The Ontario government is reforming the school system in Ontario. This is the first major overhaul of education in more than 25 years; a quarter century in which much has changed in the world around us. The province's agenda for educational change is called *New Foundations for Ontario Education* and is designed to build on the strengths of the existing system to achieve our goals of excellence and accountability. Every dollar, every activity in the education system should be evaluated in light of a single question: "Does it help students learn?"

The way elementary and secondary education is funded in our province must be examined against this question. Significant progress has been made to improve equity in education funding. The government intends to build upon this progress in order to achieve a system that is fairer, more equitable for students and focused on the classroom.

Why do we need to continue? There is widespread public concern about education spending. Parents are concerned about the public education system, from issues of standards and quality through to costs. The enormous social and economic changes that have taken place since the present system was developed in 1978 mean that the funding model we use requires updating. And government, in partnership with those in the education sector, will work to address those concerns.

Over the past fifteen years, several government studies and commissions have examined the issue of how to fund education in Ontario, including the *Committee on the Cost of Education, Final Report, 1978*, the *Report of the Commission on the Financing of Elementary and Secondary Education in Ontario, 1985 (the MacDonald Commission)*, the *Third Report of the Select Committee on Education, 1990 (Report on Education Finance)*, the Minister's Advisory Council on Education Finance Reform, 1992, and, in part, the report of the *Fair Tax Commission* released in 1993. Most recent is the report of the *Royal Commission on Learning*.

GOALS

The government is committed to a system of education finance that is fair for students and taxpayers – a system that ensures:

- equality of educational opportunity for students, wherever they live in Ontario, independent of the wealth of the local school board;
- a focus of resources on the classroom;
- a fair sharing of the revenues raised to support education;
- an understandable approach to funding schools and school boards;
- accountability to parents, students, and taxpayers;
- efficient use of school board and community resources to reduce duplication of programs and services.

We recognize, however, that the reform of education finance cannot be done all at once. We will continue an ordered transition to a funding system that furthers equality of opportunity to students across the province.

THE CURRENT SYSTEM

SOURCES OF FUNDING

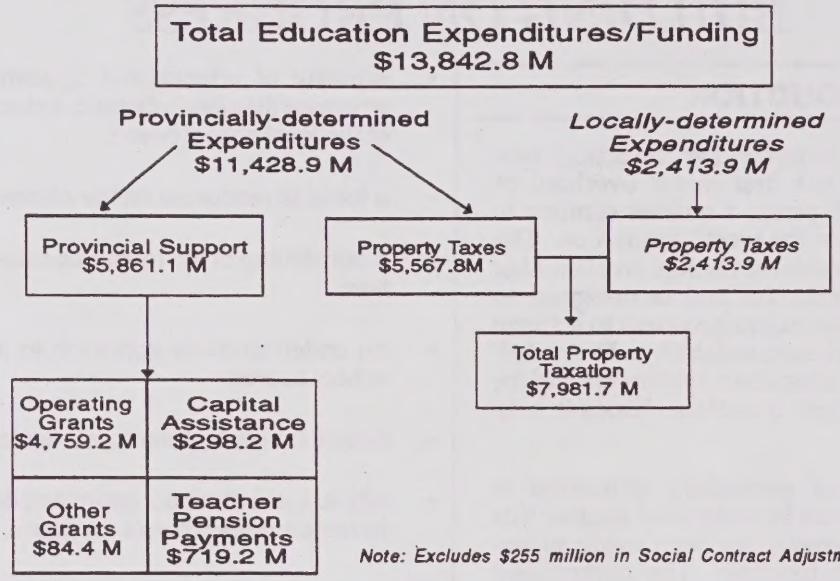
The money for education in Ontario comes from three sources: residential property taxes, local commercial/industrial property taxes, and general revenues from the provincial Consolidated Revenue Fund. The Consolidated Revenue Fund contains all the money the province receives from income taxes, sales and commodity taxes, corporate taxes and transfer payments from the federal government.

In 1994, almost $8.0 billion of total education spending of about $13.8 billion came from property taxes, and over $5.8 billion came from provincial grants.

Two principles guide the determination of the level of provincial support available to a school board:

- *all school boards must have equitable resources to provide a base level of education;*
- *all ratepayers must make the same tax effort to raise the local share of the cost of providing the base level of education.*

FUNDING EDUCATION IN ONTARIO, 1994



Note: Excludes $255 million in Social Contract Adjustments

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RECOGNIZED EXPENDITURES

Under the current funding system, the province establishes a per pupil amount of spending which it cost shares with school boards. This is known as the "recognized expenditure" and refers to expenditures that are considered necessary by the province for school boards to provide a base level of education to students. In 1994, the amount was set at $4,134 for each elementary pupil and $5,066 for each secondary pupil.

In addition, the province recognizes that some boards face added costs because of their geographic location, the social or economic conditions in their community, or the particular needs of their students. These boards are entitled to have additional expenditures recognized since these costs are considered to be beyond the control of local school boards. The province pays the full cost of these additional expenditures. In aggregate, $11.4 billion of the total $13.8 billion spending on elementary and secondary education in 1994 was for recognized expenditures.

UNRECOGNIZED EXPENDITURES

School boards can raise additional funds above the recognized expenditure amount set by the province. They do this to fund additional locally determined programs or services. In 1994, all but two school boards spent more than the basic per pupil amount. Unlike the majority of provinces in Canada, Ontario places no limit on how much a school board can spend above the level of recognized expenditures. In total, $2.4 billion for locally determined expenditures was raised in 1994, nearly one sixth of all spending on elementary and secondary education.

DESIGNATIONS

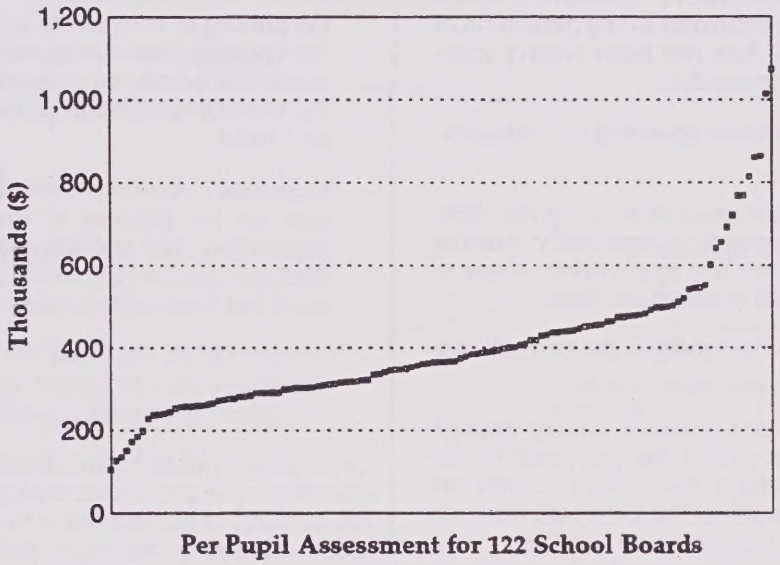
Individual Catholic and francophone owners and tenants have the right to designate where their education property taxes go, either to the separate or french language school systems where these exist. Where a designation is not made, taxes remain with the public system.

HOW THE FUNDING FOR RECOGNIZED EXPENDITURES IS RAISED

Each board uses taxes raised on residential, commercial and industrial properties to pay for its share of the recognized expenditure on the basis of a standard mill rate determined by the province. The province provides equalization grants to cover the difference between the recognized expenditure and the amount raised locally. The amount to be raised locally is determined by the application of a uniform mill rate to the equalized local assessment base. This uniform rate is called the provincial standard mill rate and is set each year by the province through calculations of the present funding formula. Since it is necessary in the grant mechanism to have a common measure of school boards' ability to raise revenue from their assessment bases, assessment equalization factors are applied to

SCHOOL BOARD ASSESSMENT WEALTH

(Per Pupil Assessment, 1994)



Per Pupil Assessment for 122 School Boards

convert the local assessment base to a common level of "equalized assessment" or adjusted market value.

This system of a standard mill rate coupled with equalization grants from the province ensures that there is equity between boards to the level of recognized expenditures. In other words, it ensures that each board is able to spend the equivalent of $4,134 for each elementary pupil and $5,066 for each secondary pupil. Within the total, however, the mix of revenue, (i.e., the relative proportion of locally raised funds and provincial grant which makes up each board's budget), can vary widely. Because the amount raised by each school board depends on the value of all the property in the area served by the board, a board with a large assessment base will raise a larger proportion of the recognized per pupil expenditure than will a board with a small assessment base.

For example, if the 1994 standard mill rate of 5.704 is applied to two boards each with 2000 elementary pupils, board A, with an equalized assessment of $200,000,000, would generate revenues of $1,140,800 and board B, with an assessment of $1,000,000,000, would generate $5,704,000. In each case, the recognized expenditure is $8,268,000 (number of elementary school pupils multiplied by the recognized per pupil amount of $4,134 per elementary pupil). Board A would then receive a provincial grant of $7,127,200 to cover the difference between the locally generated revenues and the recognized expenditure, while board B would receive $2,564,000.

FINANCING LOCALLY DETERMINED EXPENDITURES

School boards do not receive provincial grants for expenditures above the level recognized by the ministry. These are funded entirely from property taxes. An assessment rich board, one with a large assessment per pupil, can more easily fund discretionary expenditures above the recognized expenditure amount than an assessment poor board, one with a small assessment per pupil.

The overall mill rate for education spending for any given municipality (the rate that appears on local property tax bills) reflects the amount raised locally for recognized expenditures and a local rate for locally determined unrecognized expenditures.

ISSUES WITH THE CURRENT APPROACH

- *Wide variation in per pupil spending.*

All boards receive equitable funding to the level of expenditures recognized by the province. However, most boards choose to spend more per pupil and to raise local tax revenues to fund this. Assessment rich boards can do this through only modest increases to mill rates. However, assessment poor boards may find it difficult to match these spending levels because to do so would require a much larger increase in their mill rate. The result is a wide variation in spending per pupil across the province.

- *Education funding is not clearly defined.*

Under the current system, the province sets a level of expenditure per pupil that is considered necessary to provide a base level of education. However, which programs and services are included in the definition of "a base level of education" has not been clearly identified in the current funding model.

- *Classroom and administrative spending are not separately identified.*

The current system does not fund or account for classroom and administrative spending separately, making it difficult to assess whether the appropriate share of resources are being directed to the classroom.

- *There is not enough accountability in the current system.*

The current system does not indicate clearly enough the funding decisions for which the province is responsible and those for which the school boards are responsible, that is, how much of the local mill rate is to fund locally determined programs or services. As a result, neither taxpayers concerned about rising property taxes nor parents unhappy with the way their local board spends its money know where to direct their concerns.

Furthermore, there is limited accountability to certain segments of the rate paying population. Commercial/industrial ratepayers, for example, contribute heavily to locally determined programs and services, yet school boards are not directly accountable to these ratepayers because they do not vote for local school trustees.

Similarly, the current funding system does not provide the province with sufficient control over some of the education costs for which it is responsible. For example, the number of teachers hired and their salaries and benefits are negotiated at the school board level; however, the full cost of teachers' pensions is paid by the provincial taxpayer since the province, not the local school board, matches the teachers' contributions to the teachers' pension plan.

PROGRESS TOWARDS REFORM

All major reviews have concluded that reform is required. We have moved toward it, step-by-step, over the past decade with:

- the extension of funding to separate secondary schools in 1985,
- the pooling of commercial and industrial tax revenues from publicly traded corporations, shared between coterminous boards in the same ratio as residential/ farm tax assessment, phased in between 1989 and 1995,
- the pooling of commercial and industrial tax revenues from publicly traded corporations, shared between coterminous boards on a per pupil basis, announced in the 1994 Ontario Budget, to be phased in between 1996 and 1998,
- increases in the level of recognized per pupil expenditure for the purpose of improving equity, $40 per elementary pupil and $34 per secondary pupil in 1993, $100 per pupil at both levels in 1994. A further $50 per pupil has been added at both levels in 1995.
- consensus on the need for a funding framework to determine what programs and services should be included as recognized expenditures.

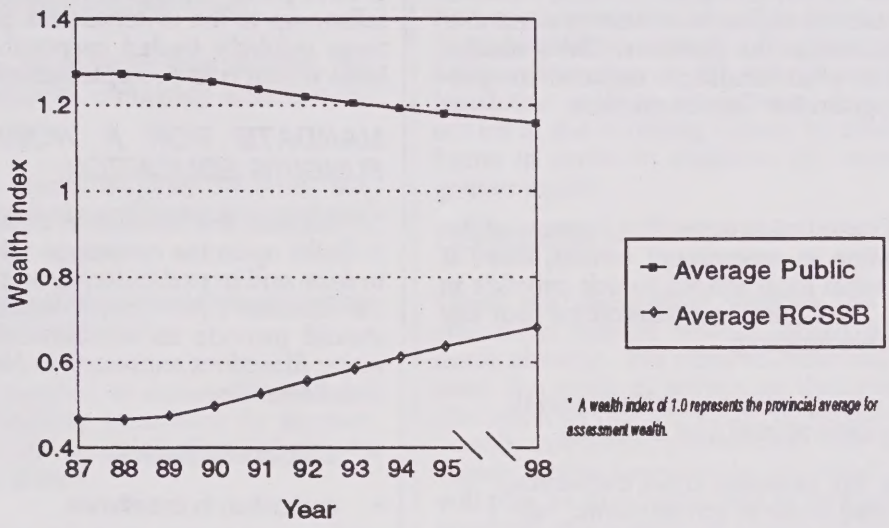
On average, public boards tend to have a larger assessment base per pupil than separate boards. The effect of the pooling of assessment is to share local tax revenues more equitably amongst coterminous boards. Tax revenues of about $20 million annually will have been shifted from the public to the separate systems over the 1989-95 period, plus an estimated $13 million annually from 1996 through 1998. In total, an adiitional $160 million will have been made available to the separate school system on an annual basis. By 1998, about 60 percent of commercial and industrial tax revenues will be shared between coterminous boards on the basis of enrolment. This redistribution is occurring at a reasonable and manageable pace.

The diagram at the top of page five illustrates the extent to which these measures have narrowed the gap between the amount of assessment wealth available to public and separate boards. In 1989, the average public school board was 2.66 times wealthier than the average separate school board. In 1998, that ratio will be 1.70.

FINDINGS OF THE MINISTER'S ADVISORY COUNCIL ON EDUCATION FINANCE REFORM

Progress toward greater equity in revenue sharing has highlighted the need for an examination of how education funding is allocated and accounted for. Preliminary work on issues related to education expenditures has already been done by the Minister's Advisory Council on Education Finance Reform. The council, a group with membership limited to representatives of school trustees organizations, support staff organizations, and teacher federations, was convened to try to bring consensus on key issues. No formal report came out of the discussions but general agreement was reached in several areas:

WEALTH* INDEX COMPARISON
1987-1998



- the concept of an Expenditure Allocation Framework using a resource cost approach as the basis for determining recognized expenditures. Under a resource cost approach, the characteristics of a provincially determined program are identified, the resources required to deliver that program are determined, and the cost of those resources measured;
- a move away from the status quo for the way in which revenues for funding recognized expenditures are generated and allocated;
- the concept of funding new capital projects which are required as a result of growth in enrolment by means of a provincial standard mill rate for capital spending;
- an enhanced level of recognized expenditures based on adequate resources, realistic costs and recognition of special needs and circumstances.

Out of this agreement, a set of recommended principles was formulated. The Minister's Advisory Council recommended that education funding should be:

- ***Equitable***

Equitable means fair, not the same. It recognizes the different needs of students and seeks to provide the resources necessary to ensure that *all* students can attain their highest level of achievement.

- ***Adequate***

There must be enough resources to enable school boards to provide an acceptable standard of programs and services, bearing in mind that there are limits to the financial resources available to the province and to the school boards.

- ***Accountable***

Parents and taxpayers have a right to know who is responsible for which decisions with regard to education. Education funding must be organized in such a way that provincial and school board responsibilities are clearly distinguished.

- ***Effective***

Education spending must be focused where it will have the most impact on students' learning, that is, on the classroom, and school boards must be encouraged to be more cost-effective. The province recognizes that many school boards have made substantial progress towards efficiencies though inter-board cooperation over the past few years, but more can still be done.

- ***Flexible***

The new funding framework must be able to accommodate future policy changes or even possible changes to the way our education system is organized.

FINDINGS OF THE ROYAL COMMISSION ON LEARNING

While education funding was not a specific part of its mandate, the Royal Commission on Learning acknowledged the importance of this issue by articulating some observations and recommendations. It stated that

equity in education requires financial equity. With that understanding, the Commission examined the way education is financed in Ontario and concluded that there are two issues. The first is equity, that is, whether the system distributes available resources in a manner that is fair to all students in the province. The second is adequacy, defined as what funding is required to provide the school program the Commissioners envisaged.

- ***Equity***

The report of the Commission notes that because of the considerable variation in assessment wealth, there is wide variation in what local school boards provide in terms of program. The Commission described four key sources of inequitable funding:

- the way in which commercial/industrial revenues are determined and directed;
- the fact that tax revenue from corporate head offices and seats of government, although generated across the province, are directed only to the municipality in which these headquarters reside;
- lack of access to the commercial and industrial tax base by separate school boards;
- the default provision, which automatically directs undesignated assessment revenue to the English language public school system.

- ***Adequacy***

The report also notes that, although at one time the Ministry had a definition of what constituted a good program of education and what it would cost, the connection between funding and programs is no longer clear. The Commission recommends that, based on the vision of quality education the Commission proposes, the Ministry determine the cost of educating each student. That, plus adjustments for different student needs and varying community characteristics, should determine what each board receives in education funding.

NEXT STEPS

This province is committed to sustaining progress toward greater equity in funding for some years to come. Government is initiating a partnership with stakeholders to map out that further progress. Substantive discussions must continue on the expenditure side, building on the principles already established, to improve how education spending is allocated and accounted for, to parents, students, and taxpayers alike.

We also want to look at what additional measures should be taken to move towards greater equity in revenue sharing. Discussions must begin now if we are to have plans in place to continue progress in 1999, as a follow-up to the co-terminous pooling of tax revenues from publicly traded corporations on an enrolment basis which is to be implemented by 1998.

MANDATE FOR A WORKING GROUP ON FUNDING EDUCATION

To proceed, the Minister is creating a Working Group to build upon the consensus which has been achieved to date, and in particular, upon the principles set out by the Minister's Advisory Council. The Working Group should provide its recommendations in light of the major directions expressed in *New Foundations for Ontario Education*:

- a focus on students
- dedication to excellence
- an education system that is accountable to the public it serves

and within the parameters of five assumptions:

- the present level of total spending on education is adequate, but needs to be spent differently;
- the provincial contribution to education will not increase, given the government's commitment to live within its means;
- education in Ontario will continue to be funded from its present revenue sources, the property tax base and provincial grants;
- expenditures on administration will be subject to a limit in order to focus resources on the classroom; and
- progress toward education finance reform should proceed at a measured and reasonable pace.

The Minister will ask the Working Group for its advice on:

- WHAT CHANGES NEED TO BE MADE TO THE CURRENT MODEL FOR FUNDING EDUCATION IN ONTARIO?
  - What needs and cost differentials between boards should be recognized to ensure greater equity and fairness for students in the range of programs and services available across the province?
  - Should the classroom and administrative components of the recognized costs of education be identified and funded separately?

- Should there be limits on locally determined expenditure?

- How can the funding system encourage cooperative delivery of programs and services?

- How can flexibility be incorporated so that the funding system reflects changing educational priorities?

- What mechanism could be used to keep the schedule of recognized expenditures updated and current?

◆ WHAT FURTHER STEPS CAN BE TAKEN TO SHARE ASSESSMENT REVENUE MORE EQUITABLY?

- What changes are needed to ensure that school boards have the funding necessary to support their expenditures and over what period should these changes take place?

- How can designation rights be accommodated as we move toward greater revenue sharing?

◆ WHAT IS THE BEST WAY TO ENSURE ACCOUNTABILITY ON THE PART OF THE PROVINCE AND SCHOOL BOARDS?

◆ HOW CAN THE CHANGES ANNOUNCED BY THE GOVERNMENT IN *NEW FOUNDATIONS FOR ONTARIO EDUCATION* BE RECOGNIZED AND INCORPORATED INTO ONTARIO'S EDUCATION FINANCING SYSTEM?

The Working Group will consider any comments on its mandate offered by stakeholders and the general public. The members of the Working Group will sit as individuals, with links to their constituencies so that members can consult their constituencies and represent their views. The Working Group will also work in concert with the Greater Toronto Area Task Force and with the School Board Reduction Task Force.

In recognition of the diverse interests represented across the province, the Working Group will be asked to indicate where there is consensus on its recommendations and where there remains a minority position.

STRUCTURE OF THE WORKING GROUP

The Working Group will be structured as a partnership between the Ministry and stakeholder groups. Membership of the Working Group will include senior representatives of school trustee, supervisory officer, and support staff organizations, teacher federations and the Ministry of Education and Training. Ministry staff will offer support as needed.

TIMING

The Minister will ask the Working Group to provide its advice by November 1, 1995. It is anticipated that further progress on education finance reform will require legislative change. To allow adequate time for full consideration of the possible content of any such legislation prior to its passage, it is essential that the advice of the Working Group be available in this time frame in order to continue the momentum towards greater equity.

CONCLUSION

There are compelling reasons for proceeding with education finance reform. Much progress has been made already. We need to continue, at a manageable pace, the work of reforming the system for financing education in this province, in partnership with school boards, taxpayers, parents and teachers. The Working Group whose mandate is described in this document will play an invaluable role in furthering this work and ensuring that Ontario's education system is equitably financed, for the benefit of students, parents and ratepayers.

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